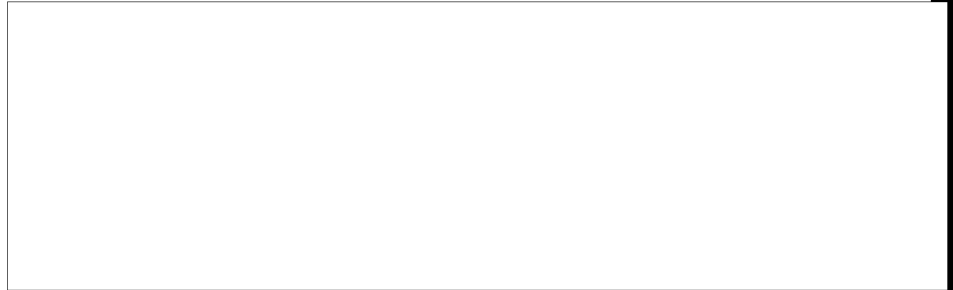




**Director of
Central
Intelligence**

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SITUATION REPORT

IRAN

A Tehran newspaper has published an advance copy of a speech by Ayatollah Khomeini scheduled to be read later today in which Khomeini reaffirms that the National Assembly will decide the fate of the hostages but does not address the issue of transferring control of the hostages to the Revolutionary Council. []

In the speech Khomeini said neither excuses for past errors nor a confession of guilt by the US will "be of any avail." He called for unity in overcoming the US. Moreover, in a statement to Iranian jurists yesterday, Khomeini appeared to take an uncompromising position on the hostages. He said that previous US threats were only verbal and urged, "Do not be afraid of words for these words are not followed by action." []

Rumors have been circulating in Tehran that the Revolutionary Council has decided to have the hostages transferred to government custody. President Bani-Sadr, following a full session of the Revolutionary Council, met last night with three leaders of the militants. After the meeting, one of the militants said, "Bani-Sadr will make the announcement tomorrow," but he gave no indication what the announcement would be. The President is scheduled to address a mass rally today commemorating the first anniversary of the Islamic Republic. []

Without a clear statement from Ayatollah Khomeini supporting a transfer of the hostages, hardliners on the Council and the militants themselves would likely attempt to prevent the move. []

The Shah's Health

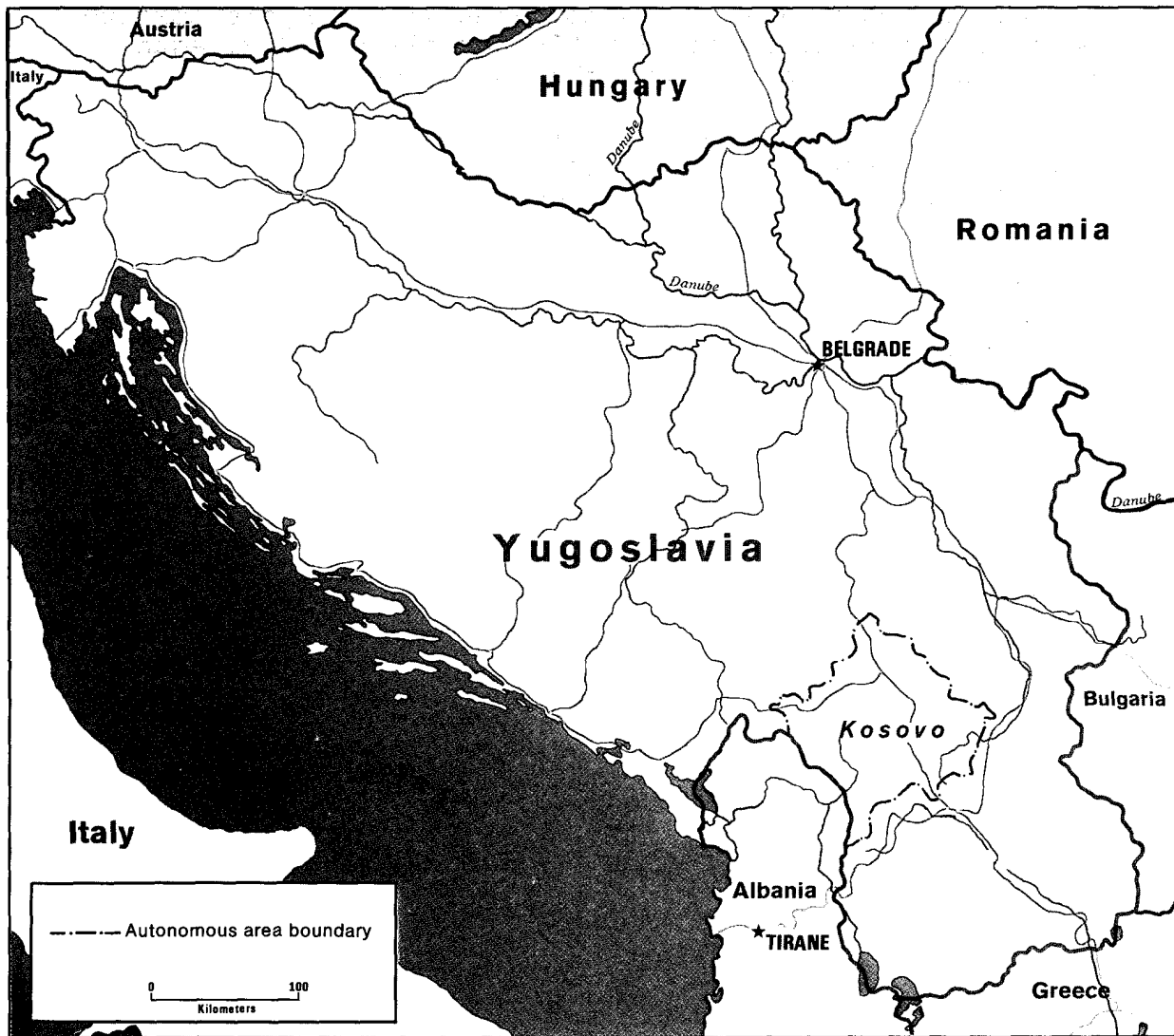
If reports are true that the Shah's cancer has spread to his liver, he probably will die in the next seven months. There is no surgical therapy for lymphoma in the liver, which also would be resistant to the type of chemotherapy that is not toxic to the liver. []

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BRIEFS AND COMMENTS

YUGOSLAVIA: Concern About Terrorism

Belgrade's concern has been heightened by the creation of a new anti-Yugoslav Croatian emigre organization in Sweden. In the 1970s, Sweden was the base for some of the most violent attacks on Yugoslavia.

Meanwhile, Belgrade also appears to be focusing on domestic enemies. Unconfirmed Western press reports indicate some 50 people in the autonomous area of Kosovo will go on trial this month for antistate activity. The defendants--who are said to include pro-Soviet Communists, or Cominformists--allegedly received foreign support.

A series of Cominformist exposes in the mid-1970s led to a major decline in Yugoslav-Soviet relations and resulted in the expulsion of several Soviet diplomats. A new dispute over purported Soviet involvement in Kosovo would strain already tense relations arising from differences over Afghanistan and Yugoslavia's role in the Nonaligned Movement.

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ROMANIA-EC: Bilateral Trade Agreement

The five-year agreement on bilateral trade in industrial products concluded last week between Romania and the EC further distances Romania from its partners in the Council for Mutual Economic Assistance. [redacted]

The agreement is the most comprehensive pact yet negotiated between the EC and an individual CEMA member. It covers all industrial products traded between the EC and Romania except steel and textiles, which are governed by separate bilateral agreements, and liberalizes import restrictions on about half of Romania's industrial exports to the EC. As a result of the agreement, 85 percent of Romania's exports to the EC are now covered by bilateral arrangements. [redacted]

The new pact, together with an agreement concluded in February that establishes a joint trade commission to oversee EC-Romanian trade relations, runs counter to the Soviet position that bilateral accords should await the conclusion of an overall CEMA-EC agreement. Current negotiations on such an agreement are making little headway. [redacted]

EC appreciation of Romania's opposition to the Soviet intervention in Afghanistan may have contributed to the conclusion of the trade agreement, which had been under negotiation for over a year. The EC offer of specific trade concessions was about double what it had been before the Soviet move. EC commission officials, however, deny that concerns about Afghanistan led to the EC's more forthcoming attitude. [redacted]

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SOUTH AFRICA - RHODESIA: Subsidies for Salisbury

The South African Ambassador to the US recently told [redacted] his government plans to extend discreet financial aid to the Mugabe government after Rhodesia becomes independent on 18 April. [redacted]

Last month Africa withheld its regular budgetary subsidy to the transitional government in Salisbury, suggesting that further subsidies would be contingent on Prime Minister - designate Mugabe's acceptance of the openly cooperative relationship that the South Africans have advocated. [redacted]

Mugabe has stated that his government can do business with Pretoria but he will not want to publicize that fact. He has omitted South Africa from a list of 96 governments invited to send representatives to Rhodesia's independence celebration. [redacted]

An abrupt cutoff of direct budgetary assistance would hamper Rhodesian economic reconstruction and social reform during the critical first months of independence. The loss of the hitherto substantial subsidy might eventually be offset by gains in trade and capital that are likely to result from ending the war and lifting US economic sanctions. Over the shorter term, however, Mugabe would have to divert assets from land reforms and welfare programs that may be needed to reduce popular pressure for more drastic measures. [redacted]

The South Africans almost certainly want to avoid the unsettling political effects of a subsidy cutoff. They probably also recognize that early acceptance of open collaboration with South Africa could weaken Mugabe's ability to restrain some of his more radical followers. Pretoria thus may be willing to accept an informal relationship that does not damage Mugabe's credentials with black Africans. [redacted]

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IRAQ - ARAB STATES: Pan-Arab Charter Proposal

Iraqi President Saddam Husayn's plans for a summit meeting to implement his Pan-Arab charter proposal have stalled.

Baghdad announced in early March that 12 countries and the Palestine Liberation Organization had agreed to attend a summit. The Iraqis, however, have not been able to persuade the other seven members of the Arab League to participate. South Yemen, Oman, Somalia, and Syria reportedly have resisted Iraqi demarches on the charter, which would ban all foreign military bases or facilities on Arab territory.

Iraqi efforts to enlist the support of other league members may be working.

Saddam may reason that simply by keeping the charter proposal in the public eye he keeps the pressure on Arab countries inclined toward military cooperation with non-Arab states.

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MOROCCO: Student Tension Subsides

An uneasy truce prevails between the Moroccan Government and leftist university students following strikes and protests earlier this year. The regime has meted out unexpectedly light sentences to a number of activists arrested in February and March and has released about half of those detained without trial since 1977. Student grievances remain unresolved, however, and another confrontation is possible before examinations begin later this spring.

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CYPRUS: No Settlement in Sight

UN mediators failed to narrow the differences between the Greek and Turkish Cypriot communities before the 31 March deadline set by the General Assembly resolution on Cyprus last November. Under the resolution, Secretary General Waldheim is now authorized to create a seven-member committee to advise him on the Cyprus question--a move favored by the Greek Cypriots but opposed by the Turkish side. Waldheim is concerned that an advisory committee would complicate his mandate while Western nations fear it would increase the opportunities for meddling by the USSR and radical nonaligned states. The UN effort has foundered so far because the Greek Cypriots insist on a strong central government and a return of much of the territory Turkish forces seized in 1974, while the Turks want a loose bizonal federation with satisfactory security guarantees for the island's Turkish minority. [REDACTED]

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KENYA: Military Discontent

Dissatisfaction in the Kenyan Army, based on pay problems and tribal friction, appears to be increasing. Army officers, particularly members of the powerful Kikuyu tribe, were upset by President Moi's recent acceptance of proposed pay raises that they consider inadequate. [REDACTED]

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[REDACTED] Moi has reacted by shelving the pay proposals, and he probably will approve raises generous enough to ease the discontent. Except for an ill-conceived plot by the Army commander in the early 1970s, the Army has remained largely apolitical. [REDACTED]

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BRAZIL: Metalworkers' Strike

A confrontation between Brasilia and the Sao Paulo metalworkers' unions over wage demands could undermine the regime's anti-inflation program and set a precedent for future labor settlements. The major metalworker locals in the greater Sao Paulo area have voted to strike today for a 15-percent productivity raise beyond a scheduled cost-of-living adjustment. Strikers could gain the backing of other locals, including 195,000 workers in the interior of the state. The Figueiredo administration, which supports management's offer of a 5-percent increase, has taken a restrained approach to strikes. If the metalworkers' action is prolonged or becomes violent, however, some in the government may push for firmer action.

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